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SIPDIS

SENSITIVE

STATE FOR WHA/BSC AND EB/IFD/OIA
STATE PASS TO USAID FOR LAC/AA
STATE PASS TO USTR FOR SCRININ AND LYANG
NSC FOR KIM BREIER
TREASURY FOR OSIA MAUREEN WAFER
TREASURY FOR OTA WARFIELD, VAN KOCH, MILLAR
COMMERCE FOR ITA SARAH COOK
SOUTHCOM FOR POLAD DAN JOHNSON

E.O. 12958: N/A

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SUBJECT: MERCOSUR SUMMIT: LONG ON RHETORIC, SHORT ON
SUBSTANCE

REF: A. MONTEVIDEO 731

[1](#)B. BRASILIA 1685
[1](#)C. ASUNCION 807

1.(SBU) Summary. Leaders attending the June 20 MERCOSUR Summit lauded creation of a Development Fund to address structural asymmetries and provide assistance to the group's less developed members -- i.e. Paraguay -- as one of Summit's most important achievements, but left largely unaddressed concerns about limits on market access. With his three hour speech to Paraguay's Congress lambasting the U.S. and offering an alternative "vision" of integration and development for South America, Venezuelan President Chavez stole the headlines of an otherwise dull show. The declaration the four MERCOSUR Presidents adopted prohibiting members from entering agreements that affect the ICC's jurisdiction could pose an obstacle to our already tenuous prospects for an agreement with Paraguay. The Presidents also signed a human rights protocol prescribing consultations and possible suspension in the event of grave violations. This protocol had no bearing on a separate decision to initiate commercial negotiations with Cuba in the context of its membership in ALADI. The Summit's Declaration affirmed commitment to expand commercial ties with a wide host of individual States and organizations, including the EU. Notably absent was any specific mention of NAFTA or China. End Summary.

Fraternal Spirit Found Lacking in Summit Optics

[1](#)2. (U) On June 18-20, Paraguay hosted MERCOSUR's twenty-eighth Summit in Asuncion. The Presidents of Member States Argentina, Brazil, Paraguay, and Uruguay attended. The Associate Members were represented by the Presidents of Chile, Colombia, Ecuador, and Venezuela and the Foreign Ministers of Bolivia and Peru. Paraguay's President Duarte took pains to foster a fraternal spirit among the four MERCOSUR presidents and, in particular, between Argentina's Kirchner and Brazil's Lula. For the family photo of all the Delegation Heads from Member and Associate Member States, Duarte insisted that Kirchner and Lula stand next to each other after they had both made pointed efforts to position themselves on opposite sides of the group. Nevertheless, photographers captured Lula with a grimace on his face in a separate photo of the four huddled in a circle with their hands on top of each other. Both presidents made a point of leaving shortly after meeting their responsibilities to protocol.

Duarte Calls For Greater Commercial Access

[1](#)3. (U) As host to the Summit, Paraguay's Duarte called on Member States to dismantle mechanisms that inhibit the free flow of goods and services. Paraguay's business community is frustrated by hindrances put on raw materials and other goods bound for Brazil and Argentina. He also noted that Paraguay's exports are disadvantaged by non-tariff barriers imposed by the other members of MERCOSUR as well as by the continued existence of unfair subsidies. Brazil's President Lula de Silva conceded that there are difficulties, but did not offer concrete measures to improve Paraguay's commercial access to Brazilian markets.

New Structural Fund Created

[1](#)4. (U) One of the more publicized outcomes of the summit was the creation of the Fund for Structural Convergence and the

Strengthening of Institutions (FOCEM), envisioned to provide USD 100 million per year in economic assistance to be shared among member states. Brazil agreed to provide 70 percent of the funding for FOCEM, with 27 percent to come from Argentina, two percent from Uruguay, and one percent from Paraguay. Ultimately, funding FOCEM will depend on concrete action by member legislatures. The goal of the fund is to create jobs, combat poverty, and to encourage structural development in the less developed member countries, namely Uruguay and Paraguay. Paraguay could receive up to USD 48 million per year.

15. (U) Vice Minister of Foreign Affairs Jose Lezcano remarked to Charge about the importance of MERCOSUR uniting to help its less developed member states -- i.e. Paraguay, arguing that the principle was more significant than the amount of funds. Once funds are approved, the organization must also devise a method of administering the funds, a step which could delay implementation. A separate anti-poverty program was agreed in principle as well, but future summits will need to decide on funding.

Proposed Energy Network Would Link Countries

16. (U) During the Summit, participants discussed a proposal to create a regional "Energy Ring." The plan is intended to link Peruvian gas supplies to existing pipelines in Argentina, Brazil, Uruguay and Chile at a cost of USD 2.5 billion. The original intention of the plan, proposed by the recipient countries, was to connect gas fields in Southeastern Peru with Chile via a 1,200-kilometer pipeline from the port city of Pisco to the city of Tocopilla, where gas could then join existing pipelines to Argentina, Brazil and Uruguay. During the course of the summit, the plan was expanded to include Paraguay and Bolivia. However, Peru's Foreign Minister noted that in order to participate in the energy network, Paraguay would need to construct its own pipeline. Media reports indicate that funding for such a pipeline could come from the Inter-American Development Bank (IDB). Peruvian Finance Minister Kuczynski noted that the plan would not be feasible unless and until Peru significantly bolsters production.

17. (U) Venezuela's President Chavez introduced his own proposal for a continent-wide energy network, proposing a 6,000-kilometer pipeline from Venezuela to Argentina. Discussion of possible sources of funding for both proposals included the Inter-American Development Bank and the Corporation for Andean Promotion, although reports acknowledged the need for private capital.

Regional Bank Proposed

18. (U) During the course of the summit, Chavez also proposed the creation of a single South American central bank (Bancosur) to which the region's countries could move their international reserves, rather than have them concentrated in the "north" and Europe. Paraguay's Finance Minister, Ernst Bergen, told the press that he thought it was an idea worth considering, especially given the current environment of macroeconomic stability in the region. He said that deeper integration, including the possibility of a regional currency, was a laudable goal, although one that would take time.

Regional Foot-and-Mouth Eradication Proposed

19. (U) MERCOSUR announced a plan to eradicate foot-and-mouth disease by 2009. In cooperation with the UN Food and Agricultural Organization (FAO) and the World Health Organization (WHO), MERCOSUR plans to vaccinate 100 percent of cattle within member states. With approximately 280 million cows that must receive at least two vaccinations annually, the estimated annual cost of the program stands at USD 168 million, an estimated total cost of USD 672 million through 2009. Paraguay, with a population of 9.5 million head of cattle, is currently free of foot and mouth disease, but the disease is found in parts of neighboring Bolivia and Brazil.

Brazil/Paraguay Sign IPR Agreement

110. (U) In the course of the summit, Paraguayan FM Leila Rachid and her Brazilian counterpart FM Celso Amorim signed a memorandum of understanding to increase bilateral coordination in combating copyright and trademark infringement. The agreement establishes a bilateral working group for the coordination of intelligence and for increased

bilateral cooperation in the prevention, investigation and prosecution of IPR-related crimes. For Paraguay, the Specialized Investigative Unit of the Ministry of Industry and Commerce, which the USG supports with INL funds, will be the principal Paraguayan point of contact. Paraguay initially proposed an MOU to Brazil in a letter from President Duarte to President Lula in July 2004, but did not get a response until May of this year.

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Presidents Strengthen Commitment to Rome Treaty
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¶11. (U) Paraguay's Senate took some heat in the press recently for extending diplomatic immunities to Amcit participants in U.S.-Paraguayan military exercises. In 2003, the MERCOSUR States affirmed their commitment to meeting their obligations under the Rome Treaty. This year's Summit went considerably further with Member States committing themselves not to sign bilateral or multilateral agreements that would affect the jurisdictional basis of the ICC, particularly in connection to Article 98. Paraguay's lawyer for Article 98 negotiations with the U.S. conveyed concern that this declaration could pose an obstacle to concluding an agreement.

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Human Rights Protocol no Obstacle to Cuba
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¶12. (SBU) MERCOSUR Presidents approved a Protocol on the Protection and Promotion of Human Rights introduced by Paraguay that calls for consultations in the event of serious concerns regarding respect for human rights or democratic order in a Member State. Member States can decide by consensus (minus the State that is the object of concern) to suspend the State from participating in the organization should consultations not produce a resolution. This document was negotiated through two MERCOSUR fora with the participation of the six associate members before its adoption by MERCOSUR Member States. At the Summit, the four members signed; Associate Members are invited to sign and ratify this protocol. A Colombian Emboffo who participated in negotiations conveyed Colombia's reservations about one of the protocol's articles leaving undefined the democracy/human standards being applied. He thought this concern would preclude Colombia from signing the protocol and indicated Chile had the same concern.

¶13. (U) At Uruguay's behest, MERCOSUR has decided to undertake negotiations to forge a commercial agreement with Cuba in the context of its membership in ALADI. Since Cuba is not seeking to become an Associate Member of MERCOSUR, it is not required to subscribe to the MERCOSUR Protocol on Human Rights, the Ushuaia Protocol on Democratic Commitments, nor the 1996 Presidential Declaration on Democracy Commitments.

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The Chavez Road Show
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¶14. (U) As reported in reftel C, Venezuelan President Chavez stole headlines and received wide coverage during his entire visit. Chavez reportedly forced an invitation to address the Paraguayan Congress, where he gave a three hour speech describing capitalism as the "road to hell," blaming underdevelopment on "imperialist countries," referring to President Bush as "Mr. Danger" because of the threat he poses to the world, and stressing the need for a "revolution" based on socialist values. He downplayed the emphasis on economic integration in the context of MERCOSUR calling for broader economic and political integration across broader stretches of South America. He offered proposals for regional petroleum (Petrosur), banking (Bancosur), and communication (Telesur) enterprises as ways to build on Bolivar's vision of a united South America.

¶15. (U) Chavez took great pains to bolster his populist image as a man of the poor posing for pictures with taxi cab drivers and hotel employees, talking up people on the street, and buying up all of the candy sold by a young child in front of his hotel. He was scheduled to depart at 11 AM on 6/21 prompting the police to stop traffic on the street in front of his hotel. Five hours later, Chavez emerged from his hotel with the street still blocked by the police and with dozens of "admirers" and curiosity seekers milling around hoping to meet him.

¶16. (U) Chavez, who came with two airplanes, was protected by a large security detail. A waiter at the hotel where Chavez stayed said that he had counted no fewer than 20 security officials circulating around him when he moved in or out of the hotel. A Spanish Embassy employee who visited the hotel where Chavez stayed was insistent that each floor of the five-story hotel was protected by at least another 10

security guards. The security detail drew fire from the press when a Venezuelan security official and a Paraguayan military official assaulted and temporarily detained a photographer who tried to take a picture of Chavez in front of the hotel.

Expansion of Cooperation with Others Minus NAFTA, China

¶17. (U) As noted, the MERCOSUR declaration announced a decision to commence negotiations with Cuba. Separately, it conveyed its interest in strengthening economic ties with a vast array of countries including Canada, South Korea, Israel, Pakistan, Panama, Mexico, India, and Russia. Argentina and Brazil strongly endorse forging a MERCOSUR agreement with the People's Republic of China. Paraguay recognizes Taiwan and continues to resist pressure to establish relations with China. Mention of China was ostensibly absent from the document.

¶18. (U) The declaration also conveyed an interest in deepening ties with regional organizations and groupings including the Arab countries, SACU of Africa, SICA of Central America, CAN of the Andean countries, and CARICOM from the Caribbean countries. It reconfirmed MERCOSUR's commitment to negotiate an Interregional Association Agreement with the EU and its interest in a ministerial with the EU. The declaration made no mention of NAFTA. Instead, it conveyed MERCOSUR readiness to begin negotiations to expand access to markets on fair terms with countries in the Hemisphere with which MERCOSUR had not yet signed commercial agreements.

¶19. (SBU) Comment: Progress on creation of a Structural Fund and establishment of an energy ring will depend on significant concrete follow-up which may prove problematic. In principle, MERCOSUR's embrace of a human rights protocol is welcome. However, the protocol itself is short on specifics both in terms of standards and procedures, raising a question regarding its utility. MERCOSUR's Declaration on the Rome Treaty is unwelcome as it will reinforce Paraguayan reluctance to provide Article 98 protections. The MERCOSUR Summit proved a platform for Chavez to tout his vision of South American unity which included a variety of proposals but no effective roadmap. At the end, the Summit may have been most noteworthy for what it did not do -- namely produce concrete agreement on the reduction of trade barriers that contribute to an expansion of market access. End Comment.
KEANE